FINAL TRANSCRIPT

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HRL - Q2 2009 Hormel Foods Corporation Earnings Conference Call

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CORPORATE PARTICIPANTS

Kevin Jones
Hormel Foods Corporation - IR

Jeff Ettinger
Hormel Foods Corporation - Chairman, President & CEO

Jody Feragen
Hormel Foods Corporation - SVP & CFO

CONFERENCE CALL PARTICIPANTS

Akshay Jabel
KeyBanc - Analyst

Ted
Stephens, Inc. - Analyst

Christina McGlone
Deutsche Bank - Analyst

Jonathan Feeney
Janney Montgomery Scott - Analyst

Chiris Bledsoe
Barclays Capital - Analyst

Ann Gurkin
Davenport - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Hormel Foods second quarter earnings conference call on the 21st of May 2009. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. (Operator Instructions).

I would like to hand the conference over to Kevin Jones. Please go ahead, sir.

Kevin Jones - *Hormel Foods Corporation - IR*

Good morning. Welcome to the Hormel Foods conference call for the second quarter of fiscal 2009. We released our results this morning before the Market opened, around 6:30 a.m. central time. If you did not receive a copy of the release you can find it on our website at www.hormelfoods.com under the investor section. On our call today is Jeff Ettinger, Chairman of the board, President and Chief Executive Officer, and Jody Feragen, Senior Vice President and Chief Financial Officer. Jeff will provide a review of the operating results for the quarter and an outlook for the remainder of the fiscal year, then Jody will provide detailed financial results for the quarter. The line will be open for questions following Jody 's remarks. An audio replay will be available beginning at 10:30 a.m. central time today, May 21, 2009. The dial in number is 800-406-7325, and the access code is 4063374. It will also be posted to our website and archived for one year.

Before we get started with the results of the quarter I need to reference the Safe Harbor statement. Some comments made today will be forward looking and made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed in or implied by the statements we will be making. Among the factors that may affect the

operating results of the Company are fluctuations in the cost and availability of raw materials and market conditions for finished products. Please refer to pages 25 through 30 in the Company's 10-Q for the quarter ended January 25, 2009 for more details. It can be accessed on our website.

Now I'll turn the call over to Jeff.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Good morning. We were please with our results in the second quarter, especially given the negative cutout margins in our pork operation and the low commodity turkey meat prices. Our Q2 earnings of $0.59 per share represent a 5% increase over OUR record results of a year ago. While total sells were essentially flat at $1.6 billion, due to reduced basic processing tonnage in both our turkey and pork operations, sales of our branded meat products and grocery products groups were both up. I will now take you through each segment.

Our Grocery Product segment reported a dollar sales increase of 4% and a segment profit increase of 5% for the second quarter. Given the strong quarter we had in Grocery Products a year ago this is an impressive result. Double-digit increases in the sales of our Spam family of products, Dinty Moore Stew and Hormel Chili were key drivers for Grocery Products. Sales of Chi-Chi's and our [Des] Mexican products were also strong during the quarter. Sales of our completes microwave meals improved from last quarter thanks to increased promotional efforts. Sales comparisons for Grocery Products in the second quarter and in ensuing quarters will be affected by the dissolution of our joint venture for Carapelli olive oil. The new owners of the brand also distribute olive oil in the United States under the Bertolli and Carbonel brands and have chosen to consolidate these offerings outside of our venture. We did generate a gain at the corporate level by virtue of the sale of our joint venture rights.

Our Refrigerated Food segment reported flat dollar sales and operating profit was down 7% from a year ago. The primary driver of this weaker performance was the negative cutout margin experienced throughout much of the quarter. Our Farmer John subsidiary was pressured these same difficult circumstances and also experienced negative margins in their farm operations. On the positive side our Meat Products group had an outstanding quarter, achieving high single0digit sales growth in its branded portfolio of products. We achieved double-digit sales growth in Pepperoni, Natural Choice luncheon meat and Di Lusso Deli Company products. We also saw a turnaround from last quarter on sales of Hormel refrigerated entrees, Lloyd BBQ tub meats and Hormel flavored marinated pork loins. Food Service sales within our Refrigerated Foods continued to decline, as the trend of eating more meals at home and decreased travel took their toll.

Our Jennie-O Turkey Store segment reported a sales decrease of 1%, but an operating profit increase of 42%. Lower feed expenditures, due to our planned cuts in turkey production, and a decrease in cost per ton was the primary driver of this improved profitability. Production was actually down low double digits, but sales volume only dropped 4% as we made a significant reduction in inventory. This tightening of production allowed us to avoid generating surplus breast meat, which would have been sold at a loss under current market conditions. The team at Jennie-O was also focused on moving more turkey into value-added products during the quarter. A continuing success story was the Jennie-O Turkey Store Fresh Tray Pack turkey line of products.

The Specialty Food segment reported decreased sales of 5%, down 8% excluding acquisition, and operating profit was down 1%. Within the segment our specialty products group generated increased sales of private label canned meat products and our Diamond Crystal brand subsidiary achieved increased sales of its sugar substitutes and liquid portion products. These successes were off -- were unable to completely offset weaker sales of nutritional and ready-to-drink products by our Century Foods subsidiary. Our All-Other segment, consisting primarily of our Hormel Foods International business, reported increase dollar sales of 3% but a 14% decrease in operating profits. Export sales of fresh pork and the Spam family of products strengthened bit were more than offset on the bottom line by a strong US dollar and weaker results by our joint ventures. Overall our second quarter results once again demonstrate the benefits of our balanced business model. I am proud that our team was able to be do better than expected this quarter amidst a difficult operating environment.

Looking forward we still face a number of challenges to our business as a result of the unsettled economy. These include the continuing unfavorable cutout margin; the prevailing oversupply of turkey commodity meats; uncertainty regarding commodity grain prices; continued weakness in the Food Service sector; and potential export issues. Nonetheless we have a number of strengths that should allow us to deliver positive comps for the remainder of the year. These include solid sales momentum of our strong portfolio of branded products; the improvements we have made in matching our pricing to our costs; and our rock-solid balance sheet, which allows us to take advantage of strategic opportunities that present themselves. Based on positive results this quarter we now anticipate full-year results in the upper end of our previously-announced guidance range of $2.15 to $2.25 per share.

At this time I will turn the call over to Jody Feragen to discuss the financial information relating to the second quarter of fiscal 2009.

Jody Feragen - *Hormel Foods Corporation - SVP & CFO*

Thank you, Jeff. Good morning, everyone. Earnings for the fiscal 2009 second quarter totaled $80.4 million, or $0.59 per share, compared to $77.6 million, or $0.56 per share a year ago. Earnings for the first half of fiscal 2009 totaled $161.8 million, compared to $165.7 million, a year ago. Dollar sales for the second quarter totaled $1.6 billion, which is even with last year. For the first half of 2009 dollar sales increased 2%, to $3.3 billion. Volume for the second quarter was 1.1 billion pounds, down 2% from fiscal 2008. Acquisitions added 6.3 million pounds to the quarter. Year-to-date volume was 2.3 billion pounds, down 2% from fiscal 2008. Acquisitions added 11.8 million pounds to the first half of the year. As Jeff indicated our turkey production was down double digits due to impact of reduced numbers and lower weights off the farm.

Selling, general and administrative expenses in the second quarter were 8.8% of sales this year, even with last year. Year to date the expenses were 8.6% of sales compared to 8.8% last year. We expect selling, general and administrative expenses to be approximately 9% of sales for the remainder of the year. Advertising expenses were 1.6% of sales for the quarter compared to 1.7% in 2008. Year-to-date advertising expenses are 1.5% of sales compared to 1.7% in fiscal 2008. We have experienced lower media rates, which improve our reach and frequency measures. We expect advertising expenditures for fiscal 2009 to be approximately equal to our 2008 expense.

Interest and investment income was $8.6 million for the second quarter compared to income of $3.3 million in fiscal 2008. For the current quarter we had higher returns on the Rabbi Trust investment versus last year, and as Jeff mentioned, a $3.6 million gain on the dissolution of the Carapelli joint venture, Interest expense for the quarter was $6.9 million, compared to $6.4 million last year. Year-to-date interest expense is $14.4 million compared to $13.1 million last year. We expect interest expense to be approximately $28 million to $29 million for the full year. Our effective tax rate in the Q2 was 35.5% versus 36.1% in fiscal 2008. The year-to-date effective tax rate is 35.1% compared to 36.4% last year. We expect the affective tax rate for fiscal 2009 to be about 36%

The basic weighted average number of shares outstanding for the second quarter and first six months of the year was 134 million shares. The diluted weighted average number of shares outstanding was $135 [sic] million for the second quarter and the first half of the year. We did not repurchase any shares of common stock during the second quarter. We have 1.9 million shares remaining to be purchased from the ten million share authorization in place. Depreciation and amortization for the quarter was $31 million, which is even with last year. For the first half of the year depreciation and amortization was $62 million compared to $64 million last year. We expect the full-year depreciation and amortization to be approximately $125 million to $130 million.

Total long-term debt at the end of the quarter was $350 million. We ended the quarter with $100 million outstanding on our line of credit. Year-to-date cash flow from operations improved over 2008, as we emphasized initiatives to reduce our working capital. We have deliberately built our cash balances in response to the uncertain credit market. Given the improvement in our working capital, and with somewhat more certainty in the credit markets, I would expect that we will be repaying our line of

credit before the year is over. Capital expenditures for the quarter totaled $20 million compared to $36 million last year. For the first six months of the year capital expenditures totaled $46 million compared with $68 million last year. For 2009 we expect capital expenditures to be about $100 million.

At this time I will turn the call over the the operator for the question-and-answer portion of the call. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you, madam. (Operator Instructions). Thank you. And the first question comes from [Akshay Jabel] from KeyBanc. Please go ahead with your question.

Akshay Jabel - *KeyBanc - Analyst*

Good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Hi, Akshay.

Akshay Jabel - *KeyBanc - Analyst*

Hi, congratulations on a really good quarter, first off. Just couple of questions. First of all, your guidance you said you intend to be in the high end of your range, if we take the high end it implies about 21% EPS growth over the prior year's like-for-like EPS, and that was down about 18%. So in my view it still seems a little conservative, which is okay, but I just wanted to talk about that relative to your divisions.

You highlighted some risks and for me when I look at your Jennie-O Turkey division the main risks there are corn and soybean prices, as well as what's happening on the pricing, and which I think we're seeing an inflection point on the pricing side for commodity meat given what's happening on the supply side. So I just wanted you to talk a little bit about the risks in each section and what makes you a little bit conservative about your guidance? And the same thing on refrigerated foods, if you could talk about the cutout as being -- it's been weak, yet you had very good performance this quarter. So I guess the bottom line is, you had all those risks in this quarter, yet you seem to have outperformed not only the market but your own expectations so given that I'm just trying to see if there's any incremental risk going forward for each of those divisions?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Okay. At the divisional level a couple of quick comments. On pricing inflection point we certainly see the industry supply and demand getting in balance, but we're not seeing the move in pricing yet. Breast meat is still very low, cold storage stocks are still very high. We're starting to head into the summer season and so it certainly should start correcting itself, but in the meantime the quarter's already started and so we're not there yet. In terms of the refrigerated outlook, entering into this year we never expected the negative cutout situation that we've been experiencing, and you are correct that we had an excellent quarter from the branded standpoint in recovering most of that. The cutout issue is still with us for right now, and you can add to that a little bit of uncertainty now at the export markets on the heals of the H1N1 issue, so it does make us concerned. We'll -- if both of those things were to clear up and we got back to more normalized cutouts and the export issues went away then we probably would be being a little more optimistic.

In terms of the overall rationale for where we ended up on the guidance -- and when all's said and done we had a good second quarter, certainly up year over year, but we're flat for the year when all -- at this stage of the game. We had two of our five operating segments reporting a gain in the quarter and only one of five in the first quarter. Our expectation for a second half is that we expect both quarters to be up, we expect to gain in the vicinity of $0.15 plus or minus for the -- over for the half, and we expect the majority of segments to start generating gains. We don't anticipate at this point it'll probably be all of them but we're certainly seeing -- we think we'll see some improvement there. And so ultimately it does [tell us it's all about] delivering rather than forecasting, and we've given you what we think's our best assessment given what we're up against right now and the momentum we have.

Akshay Jabel - *KeyBanc - Analyst*

That's great. Just one more follow up and this is, I guess, mostly Jody. In terms of your cash I know you talked about the credit environment, but from all we're hearing the credit environment seems to be easing, and looking at the cash per share, $2.30 a share right now, typically is around $1 so it's really a lot higher than it used to be. You also have quite a bit of room on your balance sheet. Can you just talk a little bit about how you plan to use that going forward. You didn't buy back any shares this quarter either. I understand the comment about credit tightening, et cetera, but it certainly seems to be easing. So if you could talk a little bit about cash flow usage for the latter half of the year that would be great?

Jody Feragen - *Hormel Foods Corporation - SVP & CFO*

Certainly. Obviously we have some outstanding balances on our line of credit and that would be a thing that we can use that excess cash with. Other than that our cash priorities have not changed. We look to continue to invest in our businesses. We are continuing with my -- with the completion of the production facility in Dubuque, Iowa. Give all that, though, we have seen our operations -- when we were initially challenged with these uncertain credit markets we asked people to prioritize their capital expenditure spending and you'll see that we're down year to date, I expect that to pick up in the back half, so we'll continue investing there. We do have the opportunity to repurchase shares and that was somewhat slowed down as we moved into this uncertain economic times and as you said, we're seeing a little bit better response on the credit side so that gives us the tune for cash there. Then we, obviously, will continue to meet our commitments on dividends.

Akshay Jabel - *KeyBanc - Analyst*

Okay, thank you very much. I'll pass it on.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Great.

Operator

Thank you. And the next question comes from Farha Aslam from Stephens, Inc. Please go ahead with your question.

Ted - *Stephens, Inc. - Analyst*

This is [Ted Drangola] sitting in for Farha.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Hi, Ted.

Ted - *Stephens, Inc. - Analyst*

I noticed on your commentary somewhat of a pick up in convenience items in the retail channels, could you guys comment some more on those trends and how that's going thus far into the fiscal third quarter and the fiscal fourth quarter. Is there any potential it might be seeing a bottoming here and an improvement in that area?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

I definitely would go with your last statement about bottoming and improvement. We had seen significant declines in the complete franchise starting third quarter last year, double-digit declines for a couple of quarters, it's gotten somewhat better in the first quarter and then, yes, this last quarter we saw it moderate and we're back to a fairly even slight gain position on the shelf stable side of the franchise. Similarly we had seen declines -- not as over as many quarters but we had seen some declines on the refrigerated entrees -- the Hormel entrees and the Lloyds -- and this quarter was -- the second quarter was better. We are certainly trying to do what we can to address any issues consumers might have with the value proposition on the items. I think we said in prior calls to us when all is said and done a complete meal in the mid-$2 range is still an excellent value. So we're being more aggressive about communicating that. We're certainly working with retailers to work on positioning and pricing of the items on a future basis. so I am encouraged that those businesses should be able to now start growing again going forward.

Ted - *Stephens, Inc. - Analyst*

Okay, great. And then just switching over quickly to the pork area. You made a quick allusion there to the H1N1 virus so just to follow up, any color on how that is settling out? And particularly in some of the markets I know you talked about there was some strong results in Mexico, but anything that's changed on that sequentially in Mexico or other markets particularly with respect to hogs and pork?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Well, we're more of a domestic player than some of our competitors in terms of where our pork ends up. What we saw domestically was, the first couple of weeks after the scare hit we did see some declines, probably close to 10% decline in fresh pork volume. The pork producers and others have been aggressive about putting out ads and we've been supportive of those, and so we've seen a restoration of the domestic business. We have some excellent features heading in to Memorial Day here, for example. In terms of export markets it's a little hit and miss right now, There are some that are closed, there are some that have some fairly significant restrictions. Mexico, their issue's related more to demand. Their economy came to a screeching halt there with all the things going on in that country and so that that really disrupted any normal flow there, but we think that will come back to more reasonable levels.

Ted - *Stephens, Inc. - Analyst*

All right. And then I guess the last -- just one last thing on the hog/pork situation. We've seen hog prices come back a little bit. What are you guys expecting on a comparable basis for hog prices these year versus last year, I guess for the remainer of the year?

Jody Feragen - *Hormel Foods Corporation - SVP & CFO*

Well, I quit -- I got out of the hog forecasting business because I think there's better forecasts that you can obtain publicly. We see a contraction in the overall supply of hogs for the year but not as much as we'd originally anticipated. And I would expect that prices will be somewhat less than last year, but higher than what we've seen in the first half of the year.

Ted - *Stephens, Inc. - Analyst*

Great, thanks.

Operator

Thank you. The next question comes from Christina McGlone from Deutsche Bank. Please go ahead with your question.

Christina McGlone - *Deutsche Bank - Analyst*

Good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Hi, Christina.

Jody Feragen - *Hormel Foods Corporation - SVP & CFO*

Good morning.

Christina McGlone - *Deutsche Bank - Analyst*

Jeff, I wanted to understand, when you were talking about Jennie-O you talked about drawing down inventory and that allowed you not to put surplus breast meat on the market. Can you explain that? What does that mean going forward if your inventory's now drawn down and when you're producing are we going to see more breast meat hit the market or you're using more of that meat internally now?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Yes, Christina, I didn't do a very good job of explaining that then. What hap -- first of all let's just talk production. We announced the production cut last year, and that production cut indeed is flowing through the system. We had announced 7% to 8%, and then we added a little bit to the cut and so when all is said and done we ended up in the low double-digit range of actual meat being produced in the plants during the quarter. What I meant by inventory draw down is, we were similar to many others in the industry in that turkey stopped moving on an aggressive basis last fall and so we ended up with extra whole birds, we ended up with extra meat, and we've been systematically liquidating the positions so we don't sit on inventory. We're now in a better position in terms of balance but the production cuts going forward will still be in place. So all I was trying to point out there was that our sales tonnage decline didn't match our production decline because we were still selling off that old inventory.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, got you. So just not selling surplus breast meat is more of a production. It wasn't an inventory issue, just a drop in production?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Right. And then strategically that is what we're trying to do here, is we're trying to tighten the system back down so that the meat we bring in is supportive of our value-added portfolio and that we, as much as possible, stay out of the commodity meat game.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. You had said this, but things we observe, like inventories and breast meat prices, still look weak, but you're outperforming and I'm curious if you still view 9% as normalized margins even though you're reducing commodity exposure so I assume it will fluctuate less than it has in the past? And then could we get to above 9% this year, given the dramatic production cuts in the industry and as demand seasonally picks up?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Well, we are certainly making that effort to reduce the fluctuations in our overall performance, to carve off the ends if we can. In terms of particular percentage goals, last year for the year -- let's talk years first of all and we were at 5.9%. We've now turned the corner, we're got -- we're into the realm of positive comps, but we did start with a negative first quarter, so our estimate for the year this year is probably more in the 7% to 8% range. You'll see a better quarter than that in the fourth quarter, but the business is a little bit seasonal in terms of when profits deliver. Our longer-term goal for Jennie-O remains to work it up into the 8% to 10% range, but you will not see that on an annualized basis in 2009.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, thank you. And then my last question, can you give an outlook for pork processing margins? And then also, when your Meat Products group did so well is that -- can you maybe talk about was it better promotional activity, lower input costs, better execution, just to give us an idea of what drove the strong results and if that is expected to continue?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

The processing margin picture is cloudy. We're in situations that we have not normally encountered in terms of these multiple months of negative cutevens and so we're working through it but we don't have a very clean outlook for that. In terms of Meat Product you've got two things going on. Clearly, on an internal basis as raw materials ended up lower than had originally been expected that benefits a profit contribution of those value-added items. But what I'm really touting when I'm talking about the strength of the Meat Product portfolio is the vibrancy of the demand for the products. We had a number of items that are up high single digit, double digit.; Pepperoni, Natural Choice, party trays, Di Lusso Deli Company, Black Label bacon, the recovery of the entrees. And so that, to me, is attributable to new product innovation, to good marketing efforts, to good ad campaign and to a good work/buyer sales force to get the right pricing and feature of those items and that should continue.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Thank you. And the next question comes from Jonathan Freeney from Janie Montgomery Scott. Please go ahead with your question.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Good morning, thank you very much.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Hi, Jonathan.

Jody Feragen - *Hormel Foods Corporation - SVP & CFO*

Good morning.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Jeff, I wanted to talk a little bit about the acquisition environment. I know you've talk -- you've been staying focused on value-added businesses but even those sorts of businesses it seems like should be becoming more available as time goes on. Is there -- what do you think about the acquisition environment right now and has it improved or gotten -- or stayed the same or gotten less attractive over the past quarter?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

It's a mixed bag. There's probably more distress-oriented properties available but we've never really been a distress player. We're not a turn-around oriented acquirer. We're much more interested in fit and then growth opportunities. I could make a case right now that to the extent -- maybe half the acquisitions we've bought over the last few years had some kind of family-ownership connection. Again, absent the stress this is not a particularly good markets for families to be considering selling their life work to another company and so we're probably seeing maybe even less interest there. Now on the positive side, value is certainly better in this environment and competition arguably would be less within some of the protein spaces. Some of the other entities that have been very aggressive in the past are now talking about focusing on restoration of their balance sheets and so that could provide opportunities, also.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

How about your focus at this time, has your focus changed as far as what you think a fit could be based on the opportunities that's out there?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

No, and we're still looking at-- most likely it would be in areas that we're already in that we bring something to the party beyond just our money. We like Food Service, we like deli, we like canned items and value-added, branded protein items. On an export basis we've said very clearly our focus is in Asia and that we would like to increase our footprint in that market and so we would be interested in something there, as well.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thanks, that's a good seg actually. So my other question was going to be about Food Service. Historically one of the strengths of Hormel has been an overexposure and I think excellent execution against the Food Service opportunity within needs. Have you seen -- you're seeing better performance in refrigerated foods, are you seeing any kind of substantial pick up in Food Service interest and Food Service pipeline, and I guess what's your outlook for the business for the remainder?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

It's still pretty soft. Food Service, we're not used to recording declining sales numbers in that segment but that's the reality they're facing. They're doing a nice job of promoting innovative items and of attacking the parts of the segment that are still somewhat more healthy, the noncommercial side. for example, and we have areas where the picture's a little better. The Diamond Crystal unit, for example, had a very nice quarter. They sell more to the QSR trade that's not down as much as some of the other parts of Food Service. But we're not seeing -- it's not in a freefall, In some areas it seems to have stabilized but we're not seeing any immediate sign of pick up.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Okay. Thank you very much.

Operator

Thank you. The next question comes from Chris Bledsoe with Barclays. Please go ahead with your question.

Chiris Bledsoe - *Barclays Capital - Analyst*

Morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Hi, Chris.

Chiris Bledsoe - *Barclays Capital - Analyst*

Just -- I just wanted to clarify briefly, your fresh pork spreads today are they better or worse than where we were pre-H1N1 levels?

Jody Feragen - *Hormel Foods Corporation - SVP & CFO*

Chris, this is Jody. Today we're still seeing those upside down, as I call them, so the western corn belt price os, higher than the cutout.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

And the outbreak seems it's down what we had hoped would be some momentum towards restoration of a normal market, to say better or worse given a number of the months haven't been good, kind of pick a date. It's better than some and worse an others.

Chiris Bledsoe - *Barclays Capital - Analyst*

Still down but not seeing the seeing the seasonal lift that you might otherwise sometimes see?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

I think it pull the rug out from under the trend that would have happened seasonally but that doesn't mean it's not still going to get back into balance.

Jody Feragen - *Hormel Foods Corporation - SVP & CFO*

We certainly anticipated that -- on our call in the first quarter that it was a short-term phenomenon but it seems to have lasted quite a bit longer than we anticipated.

Chiris Bledsoe - *Barclays Capital - Analyst*

Yes, okay. Then I guess I'm -- with that I'm I'm sort of -- I'm wondering if you're worried about health of your hog suppliers. And I guess the intermediate term risk that production capacity comes out of the system and also whether you're hearing from lenders anything to suggest that they're growing less patient on a hog cycle recovery that's now 18 months -- well,into a trough cycle anyway?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

This was certainly a tough development on the supply side and it was a tough development to the extent we have live production assets for parts of our business and this is the time of year usually you would see the recovery and they'd be able to get in a better position. So it's something we have to monitor closely, we have to talk with them a lot. We take some comfort in the fact that the up cycle lasted three to four years and so hopefully the stronger ones, at least, are in a reasonable position against that. But clearly, moving forward at some point something would have to give.

Chiris Bledsoe - *Barclays Capital - Analyst*

Yes, okay. Thank you. Just looking at the broader equity market picture right now, seems to be, I'd argue, anticipating a V-shaped recovery. Seems a little premature to me, but if consumer purchase behavior continues to follow suit -- and it sounds like you're seeing a little bit of that -- I'm wondering if the risk of pantry deloading on some of your canned items could be -- or would be fully offset by improved sales of convenience items?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

There certainly could and probably will come a point where comp sales on canned items aren't going to be double digit. That wasn't the trend we were on before. We do believe we've augmented those sales by introducing some nice extension innovations, such as Spam Singles and Dinty Moore Big Bowls and Hormel Chili Master and those are contributing to the growth and those

are quite early in their life spans. We did see very solid growth from a number of items. Value's in the eye of the consumer. Party Trays are over $10 a piece and so they're certainly not a low-priced item, yet those sales continue to register at double-digit gain clips because I think consumers do deem them a good value for what they're used for. So I think our portfolio's strong enough overall that even if we did see some mitigation of the growth on the canned items we would make up for it in convenience and we would at that point probably start seeing food service buoyancy.

Chiris Bledsoe - *Barclays Capital - Analyst*

Okay. And my last question, just to follow up on acquisitions, and you've been, to your credit, very patient over the last couple of years or last 18 months anyway, so I'm now trying to get a sense, with seeing the prospect for continued improvement in market sentiment, and the implication that may have for as asset valuation, I'm trying to get a sense of whether or not your urgency, or sense of urgency has changed in any way in the last couple of months around pulling a trigger on potential acquisitions?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

No, I wouldn't say it's changed. We've been interested all along. We recognize that we've been in certainly a slower period of delivering a deal that we can talk about to the Street versus say at a time period in early 2005 when we had four of them happen in three months. But there's a ebb and flow to deals and your analysis of them. There was probably a moment there in the fall where when the mar -- credit markets were so ridiculous that had we had something on the verge of happening we might have been nervous about getting financing for it and that could have impacted our views. But otherwise our mindset is we'd love to find things that are good fit and that we could acquire at a reasonable value.

Chiris Bledsoe - *Barclays Capital - Analyst*

Well, thank you.

Operator

Thank you. And the next question comes from Ann Gurkin from Davenport. Please go ahead with your question.

Ann Gurkin - *Davenport - Analyst*

Good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Hi, Ann.

Ann Gurkin - *Davenport - Analyst*

Just wanted to follow along a little bit on the discussion about security of supply of hogs. It's our understanding that one of your suppliers could decide to sell assets, so would you take -- or look at the opportunity to maybe add assets in the hog production area to secure supply?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

I'm assuming we're not talking about any particular supplier. I'm not sure who you're referencing and I wouldn't be able to talk about it anyway. I can talk about it philosophically. We're not overly keen on adding volatility to our business through more exposure to live production assets at this point. We don't mine the participation level we have and certainly we think we've brought in some knowledge and skill to the segment by being involved in it. But we also recognize that ultimately we certainly profess to be and think we are primarily a packaged food company and so the more of those types of downstream assets that we get involved with the further away from that consistent story we move. Our goal would be to continue to maintaining supplies through the family farm contract connections that we have for most of our business.

Ann Gurkin - *Davenport - Analyst*

Okay, that's great. That helps. And then I'd be interested in your comments on the supply of hogs in China, Do you think -- we're hearing stories that China has maybe an oversupply situation of hogs and I'd just be curious -- or I'd like your insight on that?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Well, we heard a short-term assessment of that. Our sense is that perhaps in that country there has been a stronger reaction to H1N1 fear than there has been in this country and in the short run that has essentially backed up pork supply. But it's pretty early in the game to assess whether that's going to continue or whether that should -- our hope is that that will go away here soon.

Ann Gurkin - *Davenport - Analyst*

Okay. And then thirdly on grain, I don't know if you care to look into your crystal ball and give us your thoughts on an outlook for corn and soybean prices. Certainly we're facing a delayed planting in the east coast for corn and then a smaller crop in soybeans out of South America. I don't know if you'd care to comment at all?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Well, those are important factors. We certainly are rooting for the right weather to make sure that the farmers in these regions can engender reasonable crops. Our year and our pricing is built on assessment that corn will be in the -- anywhere from $3.50 to $5, it's been in that vicinity since the big round up last summer. It's pretty much lived in that range and so our best assessment right now is we'll continue to live in that range. Clearly a really disastrous event from a weather standpoint could impact that but our sense now is hopefully that's not going the happen.

Ann Gurkin - *Davenport - Analyst*

That's great. Thank you very much.

Operator

Thank you. The next question comes -- the next question is a follow-up question from Akshay Jabel from KeyBanc. Please go ahead with your question.

Akshay Jabel - *KeyBanc - Analyst*

Thanks for taking the follow up. Just focusing a little bit on Grocery Products, can you talk a little about the chili category and the exit of one of your key competitors? And just maybe talk a little bit about longer-term trends in that division and where you could see normalized margins? That division I noticed you had close to 20% EBIT margins at one point so just if you could comment on that, that would be great.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Well, the divisional -- without getting in to a lot of detail on it I will concede that the divisional results over a stretch of years clearly were impacted by what we call the chili awards, or the major entrance by both Campbells and Bush in to the marketplace three or four years ago, caused a lot of new advertising money to go into the category, including by us, caused a lot of new promotional money to go in to the category, including by us. So as those entrants have made their decisions about what to with their franchises and as our team has redoubled its effort to retain our share and to make sure that we're still the leader in that category, we're certainly in a better, more normalized position with that category. We continue, in addition to them leaving, and we're really focused on, again, driving innovation and we've done it through simple things like adding easy-o tops to our basic can products and then more elaborate innovations, such as the microwavable trays, the microwavable bowls and the premium glass jar Chili Master item. And our intention -- we think chili's the very category to be in. We're the clear leader and we expect to continue to drive growth in that area.

Akshay Jabel - *KeyBanc - Analyst*

Okay, and one just last one. I think one thing that everyone seems to misunderstand quite a bit -- and this quarter is a perfect example and maybe you could clarify it -- that is your refrigerated foods business you have three parts in there the way I see it; meat products, food service and then the pork business, the fresh and everything else. And it seems like -- and if I just look at year-over-year change in spreads for the market, fresh cutout, versus the year-over-year change in your spreads, you have about only a third of the variability that the market showed and we've quantified that only a third of your portfolio within refrigerated foods moves really with the market and is impacted by the commodity prices and that came through this quarter. So there's been a -- everyone keeps asking about hog prices and the wheat cutout, et cetera, but like you said and you highlighted, your Meat Products division was up mid single -- high single digits and it just seems like it's very misunderstood, so maybe you could just talk about the -- just the portion of your business that's commoditized?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

I can't verify the qualification you provided but I think in general your thoughts make sense that overall, of the refrigerated food sales $1 billion of the sales in the branded Meat product Area and $1 billion of the sales are in the Food Service area where we focus on value-added branded products, and so clearly we expect to drive those results on a consistent basis and react on a pricing basis to what's going on underneath it in the marketplace. And then even within the pork complex -- we've made quite an effort over the years to brand as much of that as possible, as well. We have our Always Tender franchise, we have our joint venture with [Precept] and other fresh pork programs, and so I do think overall we've done a lot of things in that division to make it a consumer-oriented, consumer-product type division and to be able to mitigate those big swings through the branded products.

Akshay Jabel - *KeyBanc - Analyst*

Thank you.

Operator

The next question is a follow-up question from Chris Bledsoe from Barclays. Please go ahead with your question.

Chiris Bledsoe - *Barclays Capital - Analyst*

Thanks for taking the follow up. Just looking at the back-half guidance -- and on my numbers it actually implies a sequential deterioration in operating margin -- looking back I don't see really any reason seasonally why back half would necessarily be above or below the second quarter operating margin. I'm trying to get a sense of whether your guidance implies the deterioration entirely because of known variables that you've discussed currently impacting your business or whether you're just leaving some flexibility to deal with either unknown variables as headwinds, or maybe worse-than-expected magnitude of the impacts from the known headwinds?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

As I indicated earlier we do expect the majority of our business operating segments to be up. We -- otherwise I do think we've tried to factor in as best we can what our anticipation is of the challenges in the export area and the cutout area and then we've made as good a guess as we think we can in terms of the impact on some of the below-the-line factors that hit last year and what might happen this year. So I -- and I guess that's as good a characterization as I can give. We tried to go all in with that and give you our best shot at this point as to what we think it adds up to.

Chiris Bledsoe - *Barclays Capital - Analyst*

So your guidance -- I guess that's kind of the question. Your guidance is a best shot not necessarily a best shot but hey, guys, why don't we just leave ourselves a little bit of flexibility here should things deteriorate beyond what the current picture even suggests?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

I guess I don't know how to answer that question without casting aspersions on the guidance so I'm just going to have to leave it, I guess.

Operator

(Operator Instructions). There appears to be no further questions, please continue with any other points you wish to raise.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President & CEO*

Thank you all for joining us today, and that's all.

Operator

Ladies and gentlemen, this concludes the Hormel Foods second quarter earnings conference call. Thank you for your participation and you may now disconnect.
